

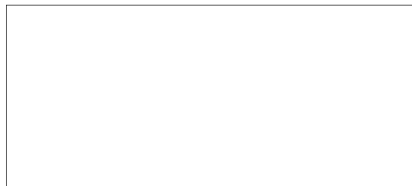
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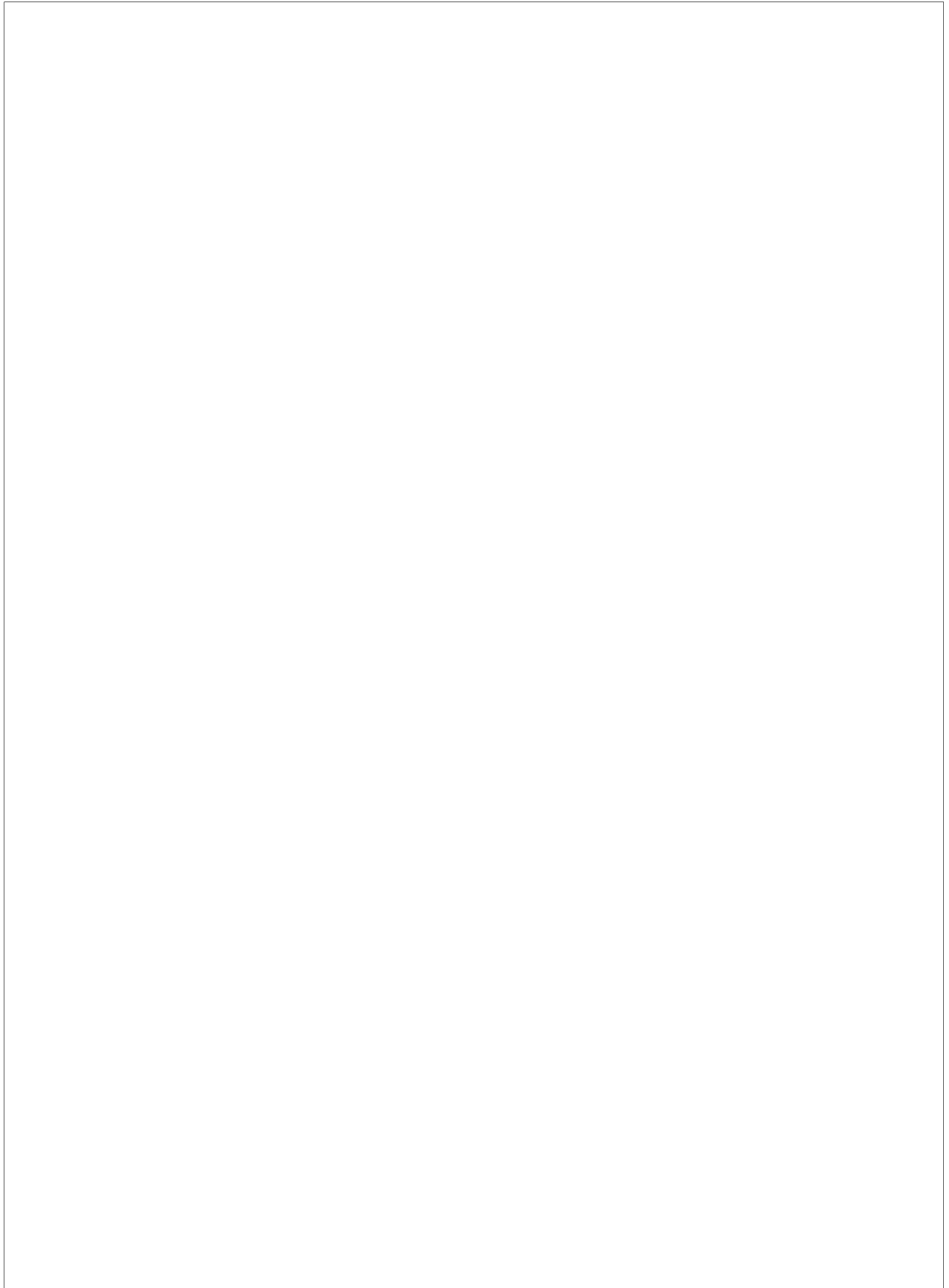


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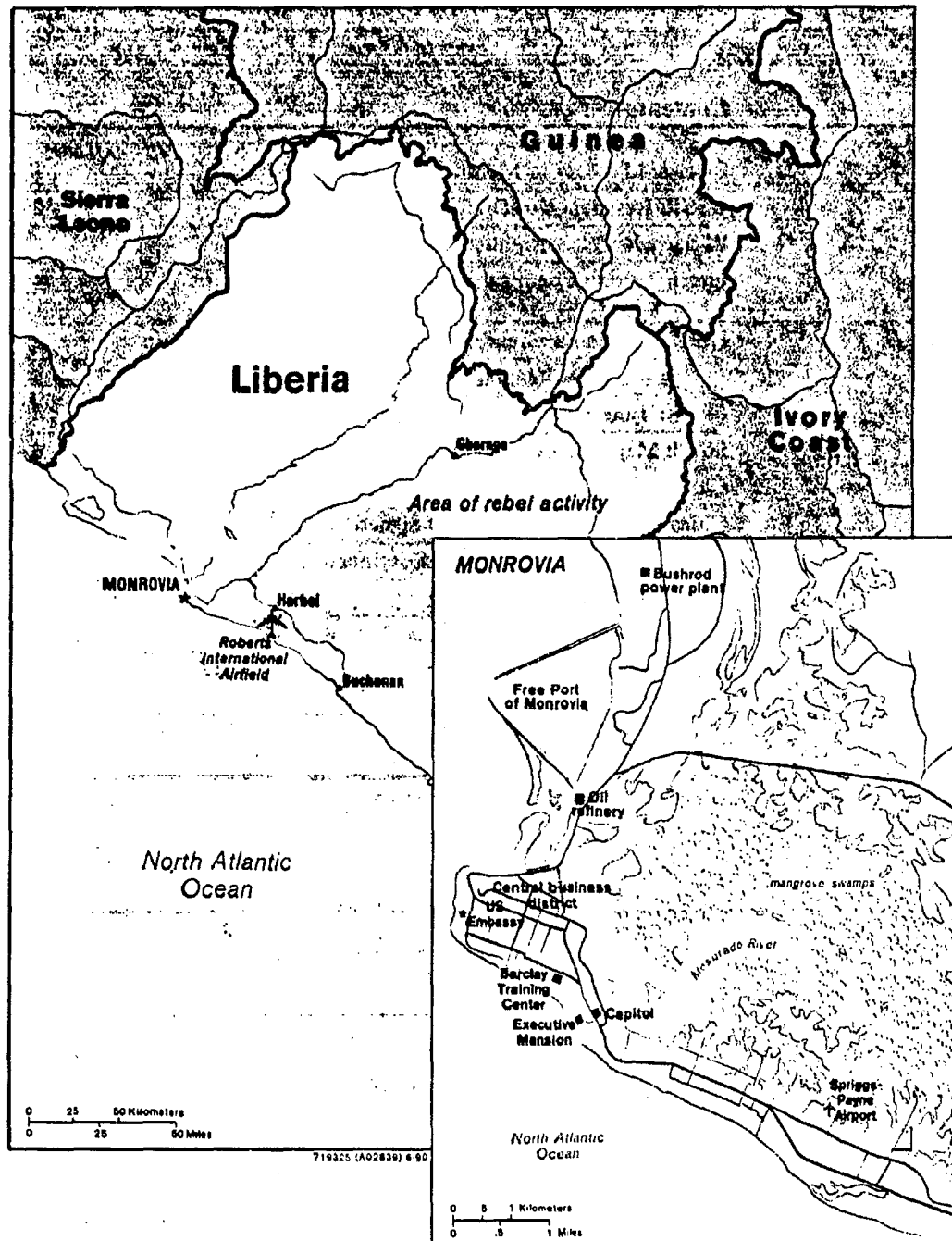
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~~Top Secret~~**LIBERIA:****Mayhem in Monrovia**

Army discipline is crumbling as the rebels draw nearer to Monrovia and may undermine President Doe's confidence in the military's ability to defend the capital.

Yesterday's peace march was disrupted when several thousand marchers passed in front of the heavily guarded Barclay Military Training Center and soldiers moved in to disperse them. Troops in the vicinity reportedly fired their weapons into the air, and the marchers panicked and fled. Those shots led to firing by soldiers posted throughout Monrovia who thought the rebels had entered the capital. There were several deaths and a number of wounded.

Although the Defense Minister ordered his officers to return all soldiers to garrison, a large number of them were still roaming the streets late yesterday afternoon. They set up numerous checkpoints throughout Monrovia and were demanding money and appropriating vehicles. The port area was quiet by late afternoon, but the troops said they were planning to return to continue raiding the rice stocks stored there.

All activity at the port has been halted, and several ships offloading rice have moved offshore; local shops and businesses have shut down. Air Guinea, the final foreign airline using Monrovia, has announced it is suspending all flights there. Meanwhile, word of a possible rebel attack on Roberts International Airfield, roughly 40 miles outside Monrovia, has begun to arrive. The army detachment at the airfield reportedly has called for reinforcements.

Comment: The military leadership is likely to have a difficult time restoring discipline among its increasingly restive troops as the insurgents move closer to the capital. Most soldiers probably have little interest in fending off a rebel attack and plan instead to protect themselves and to take advantage of opportunities to loot. The unraveling of the army in the face of continuing rebel advances may be a more effective inducement to Doe's departure than diplomatic and other pressures have been.

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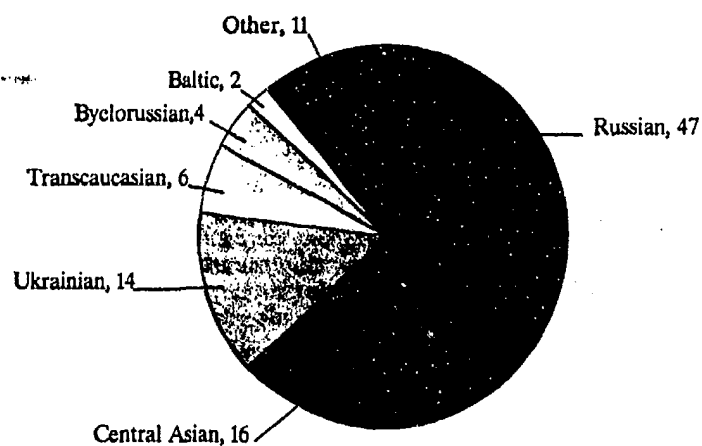
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Estimated Soviet Conscript Availability by Nationality, 1990

Percent



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USSR:

Resistance to Draft Increasing

Increased organized resistance this year to the USSR's spring draft has resulted in a lower turnout of conscripts, especially in the Baltic republics and in the Caucasus.

In those republics, well-organized activists have used appeals to ethnic loyalty and even violence to dissuade young men from reporting for military service. They have also harassed officials running induction centers. Many local authorities, responsible by law for enforcing compliance with the draft, have declined to prosecute draft evaders; some have even passed legislation "invalidating" or "suspending" the draft in their jurisdictions.

According to a Soviet television program, the percentage of eligible males reporting for duty as of 1 June in the April-June draft callup was 19 in Lithuania, 13 in Latvia, 8 in Estonia, 33 in Georgia, and 0 in Armenia. The nationwide figure was 26 percent, implying a rate of about 30 percent in the Slavic republics.

the callup is proceeding fairly well in the Slavic republics. A Soviet general on the program expressed confidence that the quota of conscripts will be filled.

Comment: Attempted draft evasion appears to be concentrated in the smaller republics. In past drafts, about 40 to 50 percent of draftees reported during the first two months of the callup. Typically, a significant number of draftees attempt to evade, but most are eventually conscripted. Although military officials have publicly expressed confidence that the conscription quota will be filled this year, they probably do not expect a high turnout rate in a number of republics, particularly the Baltic republics and those in the Caucasus.

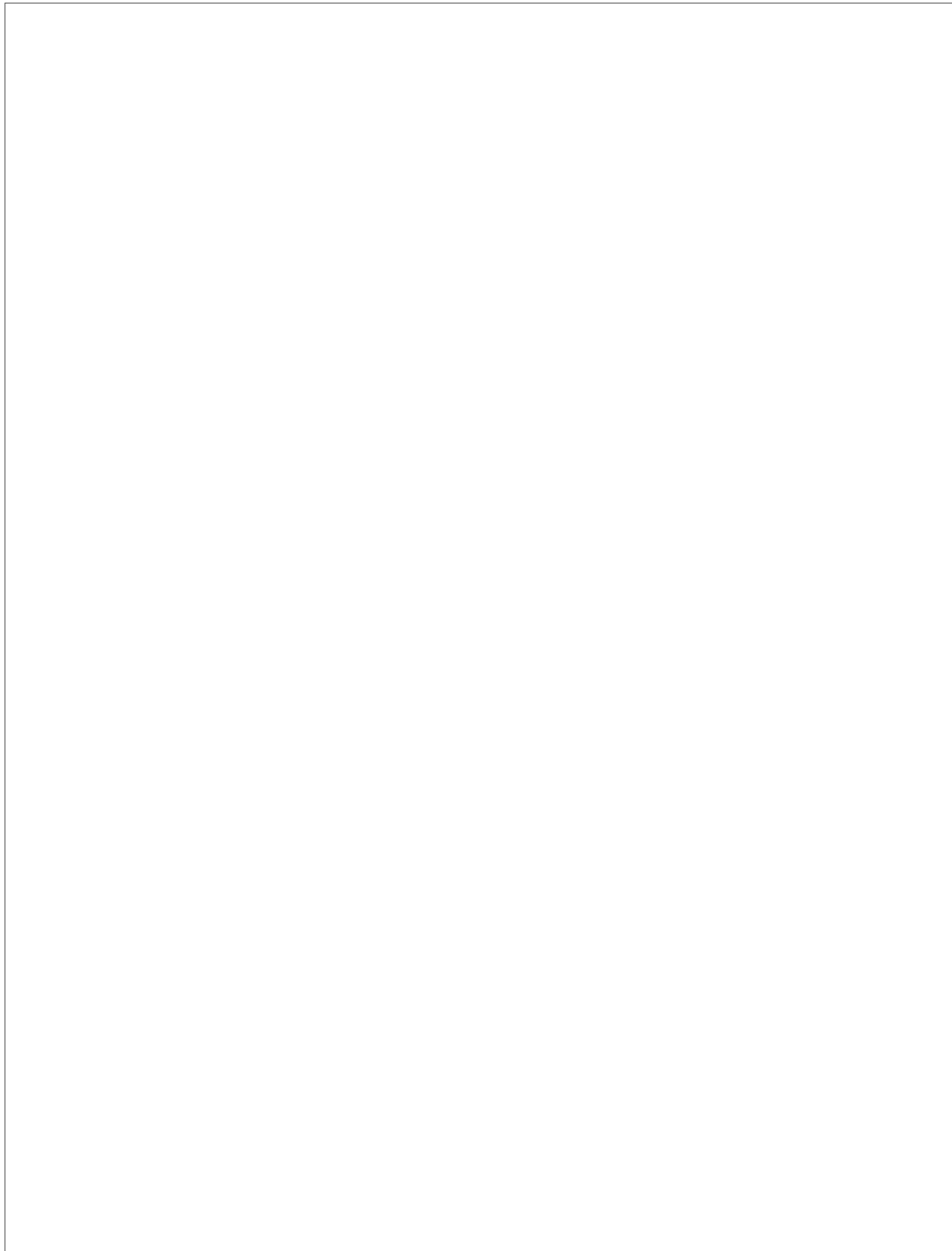
A low turnout in these republics would not significantly affect overall military manpower levels because they provide only about 8 percent of the estimated 700,000 Soviet men drafted in each semiannual callup. Soviet officials probably are concerned, however, that an easy attitude toward draft evasion will make for a snowball effect among potential draftees in the more populous republics.

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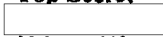
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~~Top Secret~~**USSR: Lithuanian Leaders Confer With Gorbachev Again**

Prime Minister Prunskiene and President Landsbergis met with the Soviet President late yesterday, continuing Tuesday's bargaining over a moratorium on the republic's independence declaration. Prunskiene has hinted her government will resign if the Lithuanian legislature—it is to resume debate on the issue today—does not impose a moratorium. She claimed Tuesday that Gorbachev had said he is willing to accept her government's definition of a moratorium, which would preserve Lithuania's legal independence. Many Lithuanian legislators, however, have expressed opposition to any tampering with the declaration of independence; the executive council of the Sajudis popular front has publicly repudiated Prunskiene's proposal.

Comment: Prunskiene probably would regard rejection of a moratorium—or even acceptance of a moratorium contingent on concessions to which Moscow is not likely to agree—as a vote of no confidence in her government. Her resignation would complicate efforts to end the impasse. The latest Lithuanian poll shows Prunskiene surpassing both Landsbergis and party boss Brazauskas in popularity for the first time, suggesting substantial public support for her moderate approach.

USSR: Russians React to Moldavian Nationalism

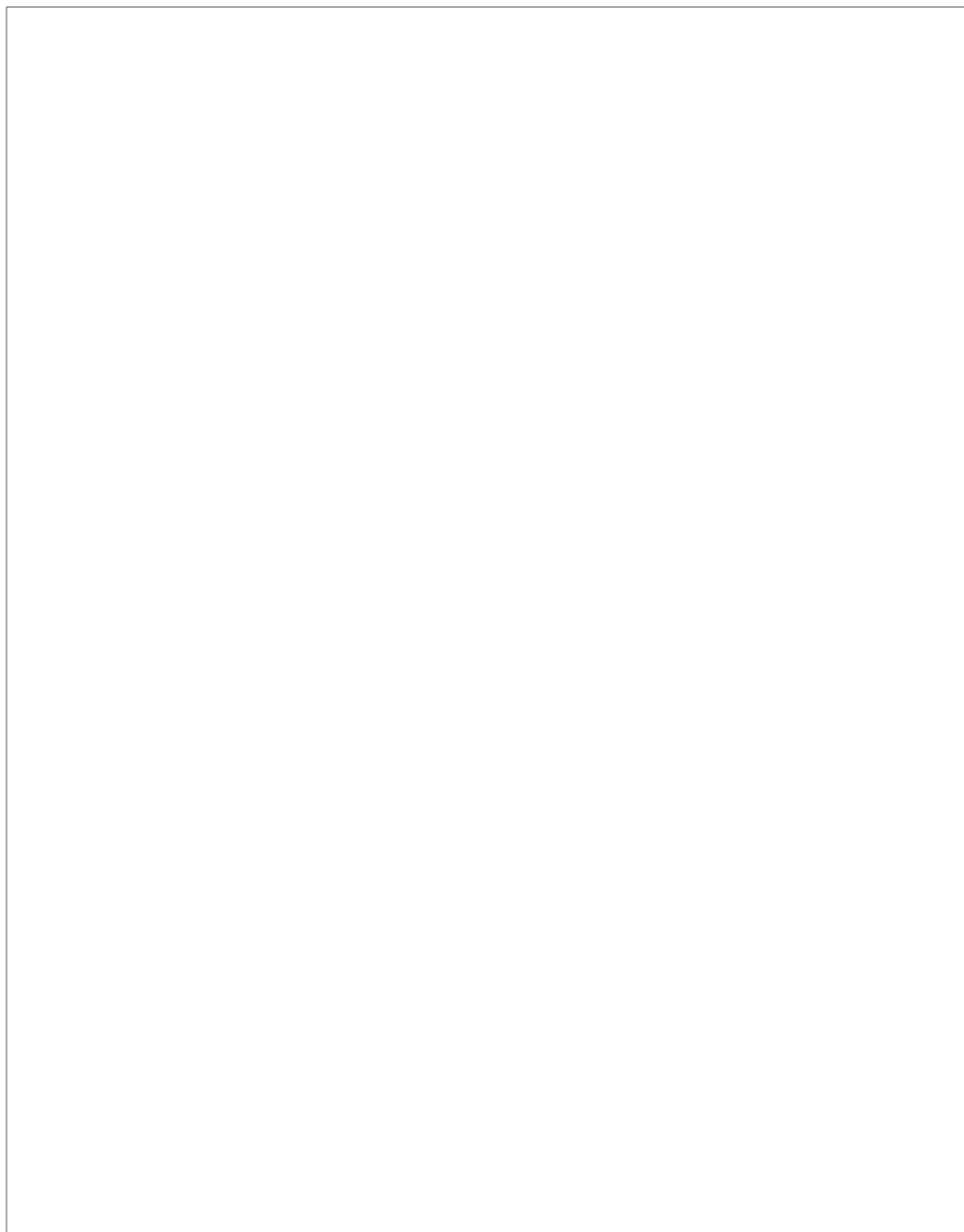
Local authorities in Moldavia's Russian-speaking city of Tiraspol on Monday announced their rejection of republic laws following the Moldavian legislature's declaration over the weekend that its laws supersede Soviet laws. Since a nationalist-leaning republic Supreme Soviet was elected early this year, Russian-speaking minorities have ignored legislation they regard as discriminatory; Russian-speaking deputies this month have called for an autonomous region in the republic with direct ties to Moscow.

Comment: Moldavia's declaration of sovereignty will heighten tensions between Moldavians and the Russian-speaking third of the republic's population. Moldavian nationalist sentiment is growing rapidly, but the Russian-speaking minority will complicate efforts for independence or for closer association with adjacent Romania.

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~~Top Secret~~**ISRAEL: Major Investment in Immigrant Housing**

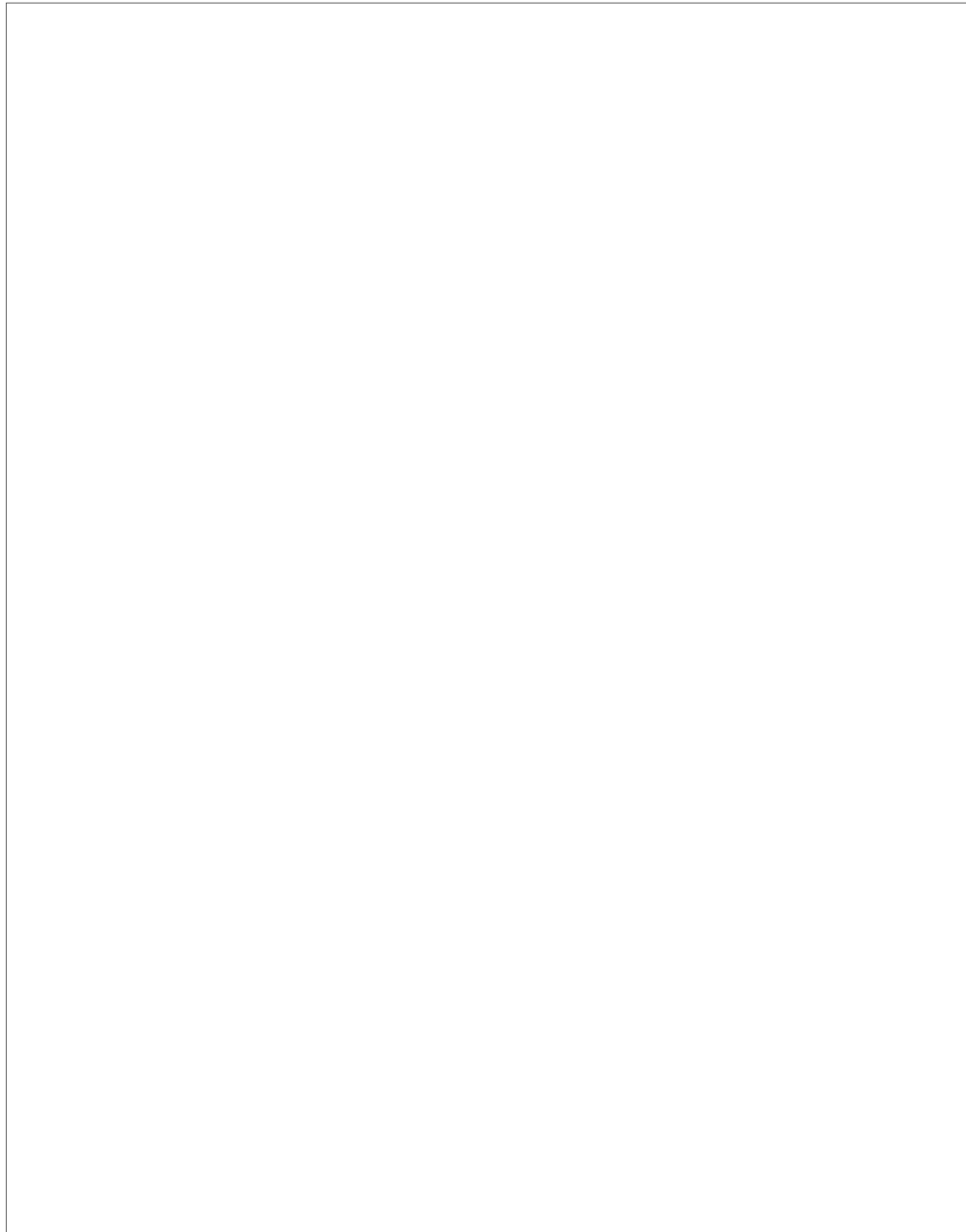
Israel's new program to absorb Soviet immigrants will partially alleviate—but not end—the country's serious housing shortage. The government and the Jewish Agency yesterday agreed on supplemental budgets of \$2.3 billion per year through 1992 to absorb an expected 450,000 Soviet immigrants. More than half of this year's funding will finance 45,000 new housing units; Tel Aviv also plans to use another \$1 billion to import at least 30,000 prefabricated units.

Comment: Israel probably will be forced to finance the program through budget cuts in other areas and increased borrowing; the required Knesset approval is likely soon. The housing shortage will nonetheless be prolonged; the construction industry probably cannot meet housing demand this year, and local union opposition is likely to delay the arrival of prefabricated housing until yearend. In addition, rising rents are likely to increase discontent among low-income Israelis competing with immigrants for housing.

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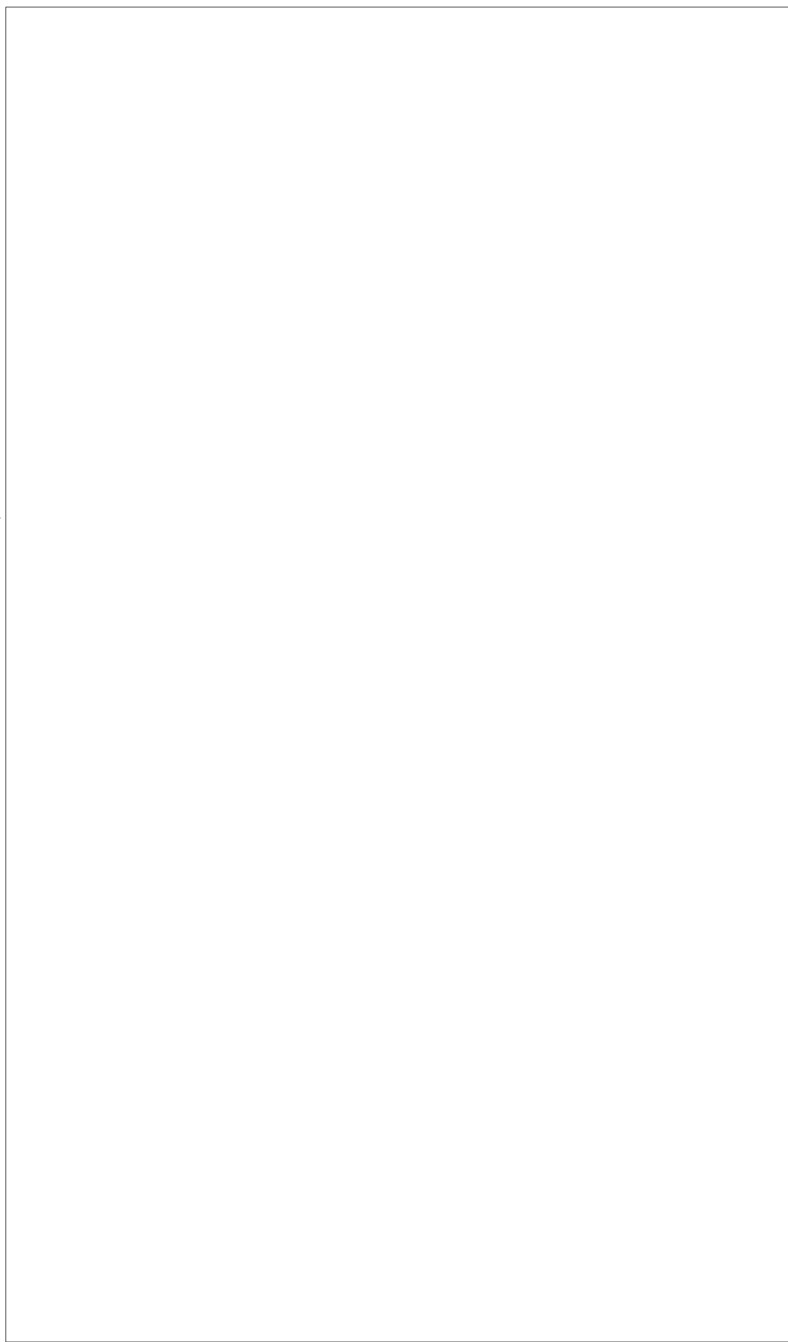


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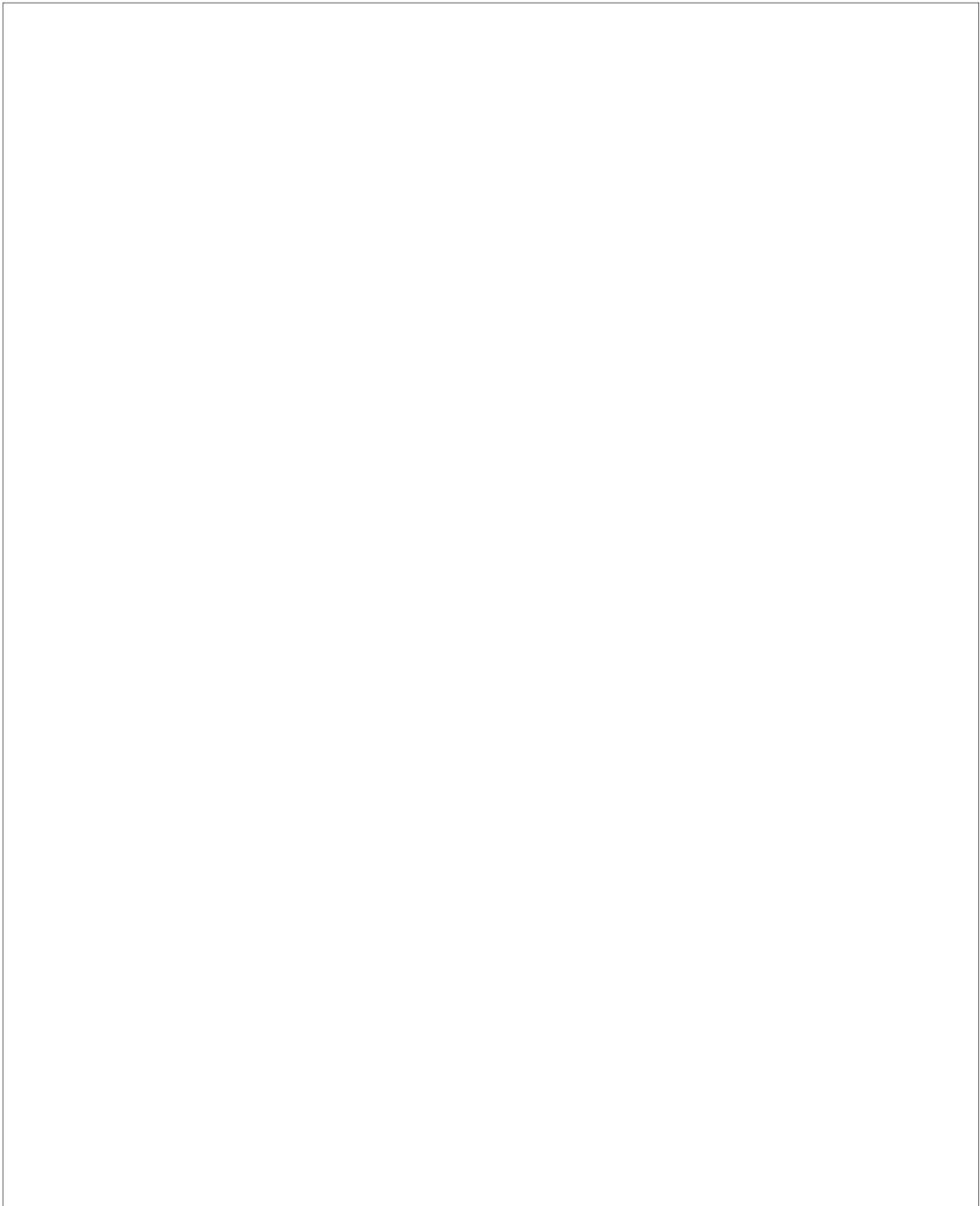
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~~Top Secret~~**JAPAN: Kanemaru Challenges Continued Defense Buildup**

Apparently trying to spark a debate on security policy, Shin Kanemaru, a power in the ruling Liberal Democratic Party, recently told the press the winding down of the Cold War mandates careful review of the 1991-95 Midterm Defense Plan. He called for delaying initiation of the plan for one year and freezing next year's defense budget at existing levels. At the same time, Kanemaru reaffirmed the importance of the US-Japanese alliance and said Japan should amend the Status of Forces Agreement (SOFA) so Tokyo could provide more support for US forces in Japan.

Comment: Kanemaru's views carry special weight because he is a key ally of Prime Minister Kaifu and leader of the prodefense group in the LDP. He previously advocated an increased defense effort and probably timed his change in stance to influence the current Cabinet-level review of the Midterm Defense Plan. Kanemaru evidently wants to steer the LDP toward policies that seem more in tune with improved East-West ties. He may hope a more dovish stance would facilitate cooperation with the moderate opposition parties, easing Diet deliberations on contentious domestic legislation as well as SOFA revision. In addition, Kanemaru probably expects a lower LDP profile on defense would advance his goal of improving relations with Moscow.

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~~Top Secret~~**FRANCE: Center-Right Opposition Forming Alliance**

Leaders of France's two rightist opposition parties are forming a confederation they hope will prevail over the Socialists in the presidential election in 1995. Center-right former President Giscard d'Estaing and Gaullist leader Chirac announced the confederation, the Union for France, on Tuesday; its objectives include holding common primaries to choose a single presidential candidate. It also creates a panel to select common candidates for the legislative parliamentary election in 1993.

Comment: Although Giscard and Chirac undoubtedly will remain rivals, both probably saw a need to join forces, in part to head off an effort by a group of younger party members to unify the center-right. Chirac and Giscard probably also believe confederation will help the center-right limit inroads by the far right National Front as well as improve their chances against the Socialists.

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~~Top Secret~~**In Brief****USSR**

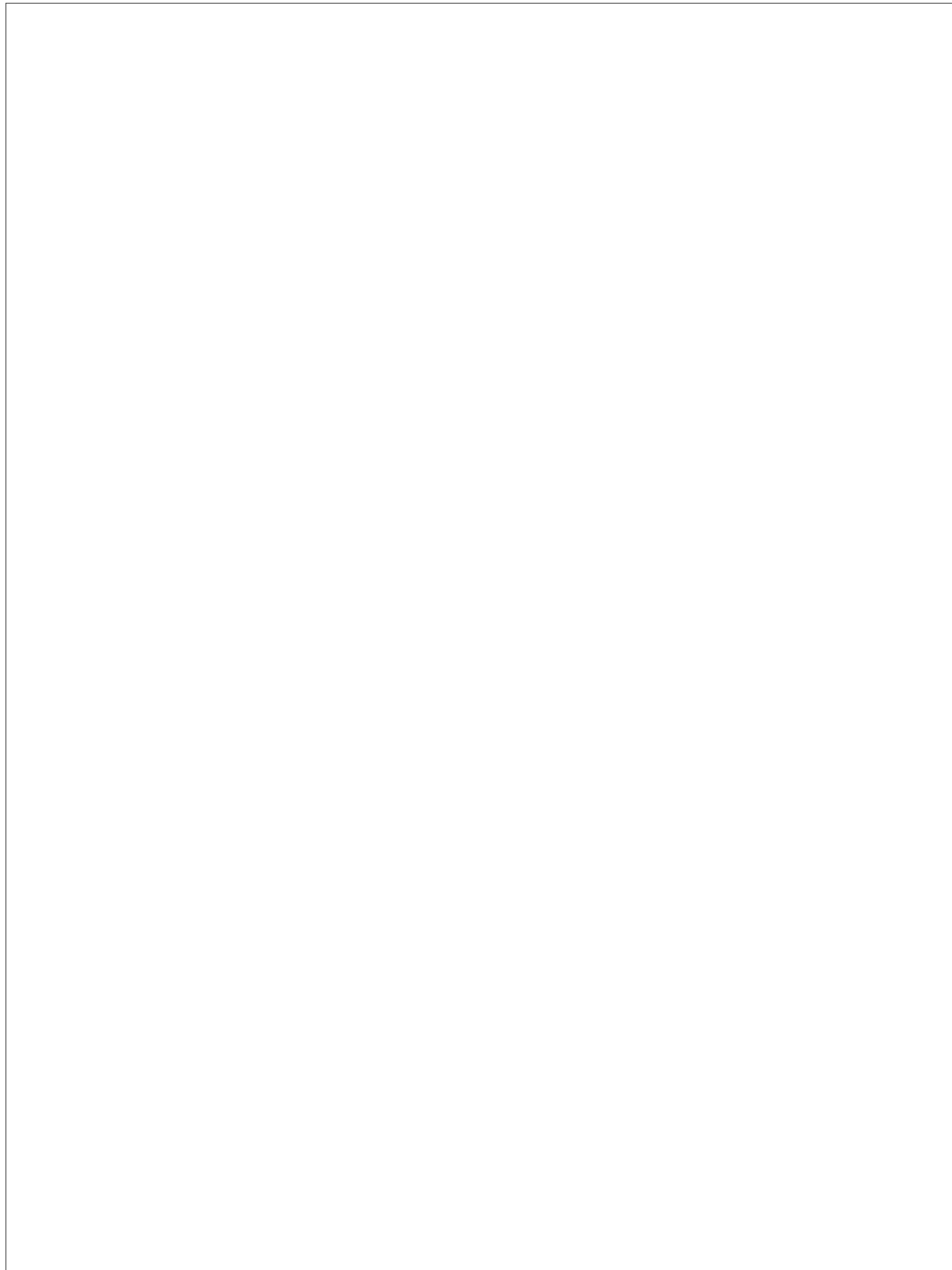
— Soviet Foreign Minister Shevardnadze in interview stressed flexibility on five-year transition period for **German** unification . . . Moscow may be reacting to strong Western rejection of timetable . . . suggests further movement likely.

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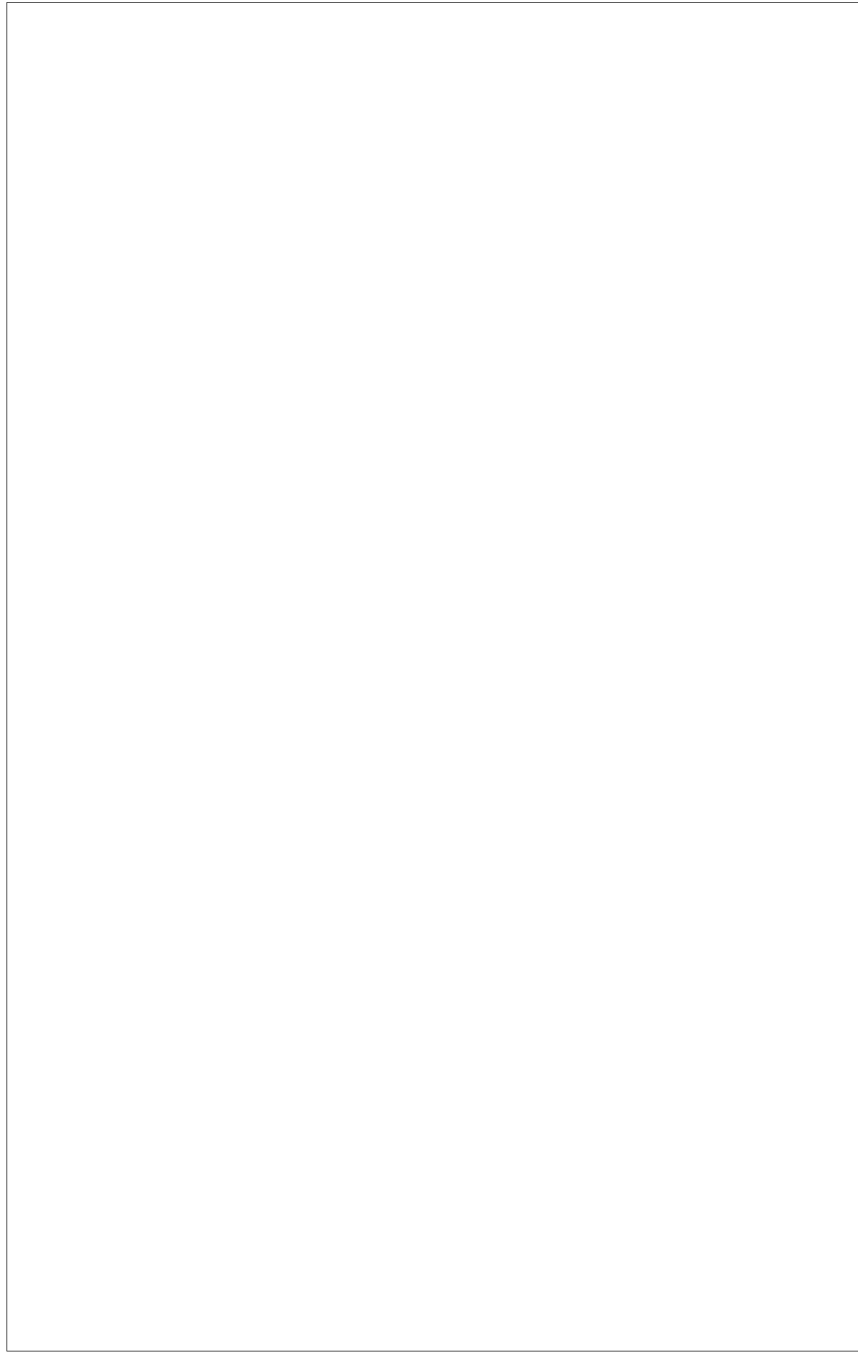
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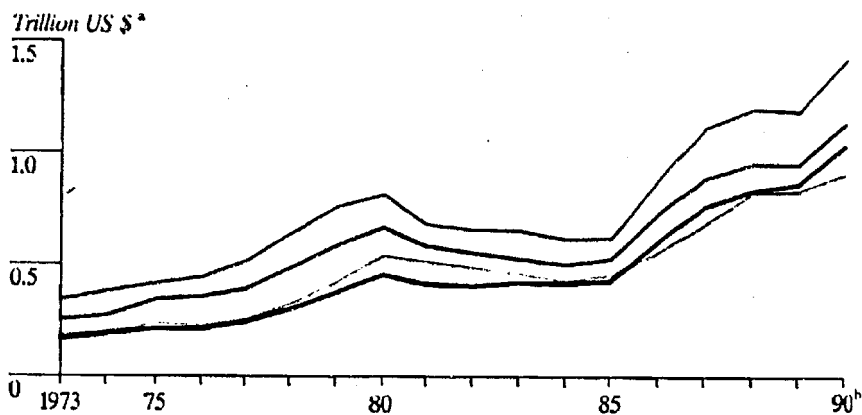
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~~Top Secret~~**Fig 4 Gross Domestic Product, 1973-90**

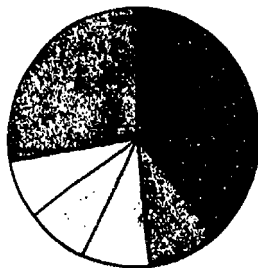
— West Germany — France — UK — Italy

^a Nominal GDP converted at current exchange rates.^b Estimated.

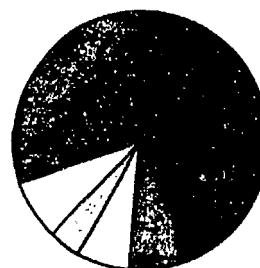
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Italy: Commodity Composition of Exports

Machinery Motor vehicles Raw materials Other
 Textiles and apparel Foodstuffs Chemicals



1973 total = \$22.2 billion



1987 total = \$116.6 billion

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Special Analysis

ITALY:

Facing EC-92

Rome assumes the EC presidency for the second half of the year Sunday with a strong stake in the EC's future. Although Italians now have the world's fifth-largest market economy, they are looking to the EC's 1992 single-market program to put their economy on a firmer footing. Like their wartime German and Japanese allies, the Italians are regaining national confidence; at the Houston summit they will seek a world role commensurate with their growing economic weight.

Despite a GDP of \$1 trillion—larger than that of the UK—and an impressive 3-percent average annual growth since the mid-1970s, Italy suffers from inadequate capital markets, poor public services, an inefficient, overgrown state sector, and rigid labor markets. EC-92 reforms will address many of these problems as companies from other EC countries compete freely in Italy, making up for shortcomings in Italian services and capital markets.

The Promise of Reforms

Even more than industrial giants like Fiat and Olivetti, Italy's dynamic small and medium-sized private firms, which account for about half of GDP, have powered growth since the 1970s. These firms have prospered by responding rapidly to changing international markets. Although many are in traditional sectors such as textiles, leather goods, and ceramics, Italian companies have also led the way in household appliances, textile machinery, steel minimills, and industrial design.

Under the EC-92 reforms:

- Cuts in generous government subsidies to bloated public-sector enterprises will free capital for more productive uses.
- Far more accurate company income statements will make investments by small savers in private firms more attractive and less risky.
- State-owned firms will lose preferential access to government contracts, shifting the trend-setting role in the economy from ponderous state-owned companies to more efficient private firms.

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Other politically sensitive changes, such as reforms in Italy's rigid labor market, probably will occur as trade competition forces business and government to reduce inefficiencies. [redacted]

Italy probably will benefit from an inflow of foreign investment as barriers to the Italian market come down. The result will increase competition among both state-owned and private-sector companies and lower costs for consumers. Small and medium-sized firms, in particular, probably will find that better access to capital will unshackle investment and growth. Even if Italian financial, communications, and transportation services do not immediately rival those of more advanced EC countries, the economy will become more competitive. [redacted]

A More Assertive Ally

A strengthened economy will encourage Rome's ambition to play a larger, more independent international role. Italy already has pushed unsuccessfully for full participation in Group of Five economic meetings and the two-plus-four talks on German unification. It is now promoting several new regional groupings, such as the Conference on Security and Cooperation in the Mediterranean (CSCM) and the Pentagonal Initiative with Austria, Czechoslovakia, Hungary, and Yugoslavia. [redacted]

Rome will be a more independent-minded partner on issues like the Middle East, where it lends a sympathetic ear to the Palestinians and radical Arab states. It probably will see less congruence between US and Italian interests in the years ahead, particularly as Eastern Europe and the USSR democratize and the first postwar generation of Italian politicians leaves the scene. [redacted]

At the same time, however, Rome almost certainly will still see close ties to Washington as necessary to its security and as a counterweight to its major EC partners, who are more inclined than the US to deny Italy greater prominence in Western councils. [redacted]

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President Li's Agenda

[] Li wants the 150 delegates—drawn from the KMT, the opposition Democratic Progressive Party, academics, and overseas Chinese—to approve five reform measures:

- Democratizing elections to the Legislative Yuan and eventually eliminating the National Assembly, which serves as Taiwan's electoral college and is dominated by mainlanders with life tenure.
- Granting provincial, county, and municipal governments greater autonomy and allowing direct election of the governor of Taiwan Province and of the mayors of Taipei and Kao-hsiung in 1992.
- Streamlining the government and shifting more policymaking responsibility from ministries to the legislature.
- Revising the 1947 Constitution, primarily to repeal the extraordinary measures imposed after the Nationalists' defeat on the mainland in 1949 that give the President special administrative powers.
- Allowing direct trade and investment with the mainland.

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Special Analysis

TAIWAN:

President Li, Political Reform Face Major Test

The National Affairs Conference on political reform that opened today pits President Li Teng-hui against conservative mainlanders led by Premier Hao Po-ts'un, ruling-party reformers including former Premier Li Huan, and radicals outside the ruling Nationalist Party (KMT). At stake are the pace and substance of political reform on Taiwan, the President's political future, and Taiwan's policy toward mainland China.

The weakened President, who called for the conference shortly after his election in March and has staked his prestige on its outcome, is trying to exploit mounting popular demands for political change. Failure to produce specific reforms will increase the danger of violence between the government and opposition radicals.

The major obstacle to progress appears to be the bloc of conservative mainlanders backing new Premier Hao, who has clashed with the President over key issues already and may be working to prevent the conference from adopting any specific reforms. Hao's recent public statements on China have implicitly criticized the President's policy and may signal that the price of compromise on reform is a stronger voice for Hao's faction in policy toward Beijing and a freer hand against radical dissent.

Supporters of the ousted Li Huan in the KMT reform wing continue to call for more radical reforms than the President is willing or able to deliver.

Opposition radicals remain convinced that only street tactics can democratize Taiwan. They threaten President Li's ability to manage the push for reform, and their confrontational tactics may play into the hands of the old guard. Hao has already warned that illegal street demonstrations will be dealt with forcibly.

The conference will fail unless Hao backs the President at some point, but, if the two set aside their differences, Li probably can secure a reform package that will satisfy all but the most radical. Such a package would still require approval in the National Assembly, however. Opposition from Hao would tempt the President to appeal directly to the voters, even though doing so would risk splitting the party. The result of a schism probably would include stagnation in a number of crucial policy areas and street violence over the lack of democratization.

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